VZCZCXYZ0001
RR RUEHWEB

DE RUEHBS #3403/01 2791612
ZNR UUUUU ZZH
R 061612Z OCT 06
FM AMEMBASSY BRUSSELS
TO RUEHC/SECSTATE WASHDC 3284
INFO RUCPDOC/USDOC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCNMEN/EU MEMBER STATES

UNCLAS BRUSSELS 003403

SIPDIS

SIPDIS

STATE FOR EB/OIA, EUR/ERA AND EUR/UBI
TREASURY FOR OASIA/ICN - ATUKORALA
USDOC FOR 3133/USFCS/OIO/EUR

E.O. 12958: N/A
TAGS: ECON EFIN EINV EIND ELTN BE
SUBJECT: BELGIAN STEWPOT: October 5, 2006

Ref: (A) Brussels 3196 (B) Brussels 2926

1-2. Update on the Budget Mess
¶3. Belgian Competitiveness Stagnates
¶4. Belgian Exception Recognized by EU Court
¶5. EU Says Belgian Tax Law Discriminates
6-7. Off-shoring Risk to Belgium Analyzed
¶8. A Home Grown National Dish
¶9. PC Linguistics on Belgian Trains
¶10. The Scent of Wine On-Line?

Update on the Budget Mess

¶1. (U) Progress on rebalancing Belgium?s 2006 budget and proposing an
FY 2007 budget has been slowed by the municipal elections to be held

October 8. The government claimed remarkably quick progress in filling the holes created by an accounting snafu and over-estimation

of tax revenues (ref A), but the evidence of this has not been seen

in print yet. The government claims a buffer of 100 million euros from prepayment of corporate taxes due later in the year. Reportedly

the sale of a block of 67 government buildings to a consortium led by
Belgian real estate developer Confinimmo would bring in another 593

million euros, but the plan has been challenged on legal grounds. An
extraordinary dividend from former telephone monopoly Belgacom of 50

million euros will also help. This would leave only a 350 million euro gap to cover.

¶2. (U) Prime Minister Verhofstadt has announced due to the government?s preoccupation with the coming municipal elections the compiling of the FY2007 budget will take more time. His scheduled ?state of the nation? address to the Federal parliament, due to reconvene on October 10, will be delayed until October 17. Rumors contend that one option being considered to close the 4.5 billion euro gap looming in the 2007 budget would be granting the government

access the massive fund being held in escrow by Synatom, the Electrabel/Suez affiliate responsible for future decommissioning of

Belgium?s operating nuclear power plants. This 4 billion euro account, fed by Electrabel energy sales revenue, has until now been

considered sacrosanct, and may be an uphill battle for the coalition

government.

Belgian Competitiveness Stagnates

¶3. (U) World Economic Forum study released in September ranked Belgium twentieth out of 125 in global competitiveness, the same as last year. The World Competitiveness Index is a mix of objective data and subjective responses by 11,000 CEOs. Belgium scored well on infrastructure, higher education, business sophistication, and innovation criteria, but ranked poorly in terms of taxes, labor market flexibility, and inefficient government bureaucracy. Ironically, the poor scores are all related to public policy issues, while the high scores are not necessarily government determined. The mixed conclusion: the competitiveness of Belgian companies is good, despite the handicaps of the environment they must work in.

Belgian Exception Recognized by EU Court

¶4. (U) On September 28 the EU?s highest court ruled against state control of former government monopoly enterprises through use of a ?golden share? to guard management control. The European Commission, which regulates takeovers within the EU, had argued that the government's so-called golden shares made investments in the companies less attractive. Such golden shares ?are an unjustified restriction likely to deter investors of other member states from investing? in the two Dutch enterprises under scrutiny. The Court acknowledged a Belgian exception, however, regarding the firms Distrigaz SA and Societe Nationale de Transport par Canalisations; the court judged that golden shares were justified in those cases because they helped protect energy supplies in the event of a crisis and to provide for the public welfare. Apparently, golden shares have to be of legitimate and motivating public interest to qualify.

EU Says Belgian Tax Law Discriminates

¶5. (U) On October 3 the advocate general of the European Court of Justice declared that Belgium?s fiscal regime regarding pensions was not legal under EU law. The Belgian tax law permits the deductibility of employer contributions for employee insurance only if these contributions are made to an insurance or pension fund established in Belgium. The GOB also imposes this condition on long-term savings by way of where the returns are held. In both situations, the ECJ official considered the Belgian action contrary to the free circulation of labor capital in the EU, and discriminated against the nationality of the pension fund. No comment was available from the Ministry of Finance.

Off-shoring Risk to Belgium Analyzed

¶6. (U) A Belgian consultant to US consulting firm A.T. Kearney has produced a study analyzing the risks to Belgium from the growth of ?off-shoring? ? the phenomenon of moving parts of business production and management out of the country to take advantage of more competitive foreign workplaces. Off-shoring has been viewed by unions as the major drawback to globalization. According to the consultant, in Belgium off-shoring has already started in the financial services sector; this sector is easily transferred because it is highly computerized, and the near zero cost of sending and handling data abroad also facilitates accounting, human resources,

and other management functions relocation. Aspects of Belgium?s chemical and consumer goods sectors ? particularly automobiles ? are also at risk, the consultant notes. (Comment: Given the size and importance of the chemical sector and vehicle production sector in Belgium, this assessment could create deep concern. End Comment.)

¶7. (U) Less likely to be off-shored are utilities and public services. Belgium?s strengths in pharmaceuticals and new technologies make them natural poles around which to attract new business from overseas; know-how and a deep research knowledge base are difficult to transfer abroad. Finland?s cell phone technology (centered on Nokia) is the example to emulate. Belgium?s logistical advantages also cannot be duplicated by moving to Asia or other low-wage venues.

A Home Grown National Dish

¶8. (U) While Belgium?s national dish ?moules-frites? has been made with Dutch mussels for years, Flanders is now producing homegrown mussels again. A 7-year project to harvest Flemish mussels was hailed a success after the first batch went on sale at Ostend fish market in late August. Four tons of mussels are grown in nets five kilometers off the coast of Nieuwpoort in West Flanders. The first Flemish mussel harvest was planned for 2005, but slow paperwork caused the mussels to grow so big that they broke the nets and could not be harvested. Other Flemish growers are expected to start up as demand increases. A Wind Farm (offshore windmills) to be constructed on Thornton Bank off the Flemish coast will shelter mussel nets from damage by passing ships and storms. In time domestic production is expected to cover half Belgian mussel consumption.

PC Linguistics on Belgian Trains

¶9. (U) Linguistic guidelines of the Belgian Railways (SNCB/NMBS) have been announced that take into account the country?s French/Flemish language tensions. Conductor announcements of destinations or stations must be made in the language of the region where it is located, except for the 54 Flemish and 39 Walloon stations that have two official names. For those, both need to be announced, with the relevant regional language name used first. For example, the Walloon city of Mons must also be announced as Bergen. And in bilingual Brussels? The stations in more Flemish-inclined communes start with Dutch, and vice versa for the Walloon French-inclined communes. One station is missing from the list: Brussels Central. Here, announcements will start in Dutch in even-numbered years and French in odd-numbered ones. Comment: Post expects printed train itineraries to sell briskly in the next year.

Scent of Wine on-Line?

¶10. (U) Delhaize, one of Belgium?s and one of America?s leading food purveyors (ref B), plans to launch a series of winetasting courses. In conjunction with Belgacom internet affiliate Skynet, fifteen different interactive courses on oenology will be offered free on-line at the Delhaize website. It appears to be a wise investment for the food and wine marketer: in 2005 Delhaize sold 43 million bottles

of wine for a total of 200 million euros, giving an average price per bottle of only 4.65 euros (USD 6.00); raising the demand for higher quality, pricier wine could profit the retailer handsomely.

KOROLOGOS